HOW TO INVEST YOUR SAVINGS

By

ISAAC F. MARCOSSON

Reprinted from the Saturday Evening Post
Revised and Enlarged

HENRY ALTEMUS COMPANY
PHILADELPHIA

To

GEORGE HORACE LORIMER

CONTENTS.

PREFACE

This little book is based on the articles which appeared in the *Saturday Evening Post* of Philadelphia, entitled, "Your Savings." The wide interest they aroused among investors and prospective investors all over the country, encouraged the author to present them in this more permanent form. Their sole purpose is to enable the man or woman with savings to become acquainted with the facts essential to safe and intelligent investment. The book is offered as a slight contribution to the growing educational literature which has for its largest purpose the safeguarding of the people's money and also to show how the pitfalls dug by unscrupulous "get-rich-quick" promoters may be avoided.

I. F. M.

HOW TO INVEST YOUR SAVINGS

CHAPTER I

SAVING BY SYSTEM

Benjamin Franklin once said: "Money makes money and the money that money makes, makes more money." This is the simple key to all wealth. Therefore, to get money and make it increase and multiply for you is the almost universal desire. Most people do not stop to realize that to make money, you must make what money you have work for you. The wealth hoarded by a miser is inert power. It is like owning a piece of real estate. The property will not actually earn anything for the owner unless he plants something in it, or builds something on it. Then it becomes productive. So with money.

Investment simply means putting money out to work so that it will earn more money. Speculation is often mistaken for investment. There is a big and sometimes costly difference. Speculation is buying something, or part of something, in which

the element of chance figures. It may be profitable or it may not. Take a share of stock or a city lot. If it is bought for speculation the buyer expects the principal to increase in value. Investment, on the other hand, consists of buying something to secure a steady and assured income. It may be a bond or it may be a mortgage.

All investment begins with the savings bank, which is the first bulwark of the people's money. The first step toward accumulating money is to save a little, and the best way to save a little is to put a small amount in a savings bank. It is astonishing to see to what extent a small sum of money will grow. The smallest amount is worth saving. Do not hesitate to begin with the pennies. They do not know how to take care of themselves and the dollars do.

"But how can I save?" is the question that people who work for small salaries are asking everywhere. There is a way and it lies through system.

Simply apply the same intelligent effort to your money that you expend on your time, energy, or the material with which you work. Practically everybody who works or earns money in some way can put aside five cents a day. This seems to be a very insignificant sum. It is a single car fare or the price of a glass of soda water. Yet let us see what it can do.

Five cents put aside every day will amount to

$182.50 in ten years. Placed in a savings bank that pays four per cent. interest it will earn $40.06. Thus the total sum represented at the end of ten years by the simple saving of five cents a day is $222.56.

Take ten cents a day and by the same process of saving and investing, it will amount to $445.56 in ten years; while twenty-five cents a day will become the sum of $1,113.75. If you put a dollar in a savings bank every week for twenty years it will mean $1,612 at the end of that time.

The only way to save successfully is to keep constantly at it. It is a good thing to remember that you can start a savings bank account with one dollar and that no amount is too small to be deposited. It is not a good plan to keep your savings around the house. There is always the danger of fire and burglars. Besides, if they are kept in a stocking or in a tin bank they will not be earning any more money for you.

You can very easily get the saving habit. When you get your pay envelope, or your allowance or your income, ask yourself the question: "How much of this can I save?" If you ask it often enough you will find that it will become a sort of instinct not difficult to heed. Start some little system that is regulated by your business or your habits. For example, put aside a quarter every time you are late at your work. If you live in

the country assess yourself fifty cents every time you miss your regular train. If you are a man who smokes and for economy take to a pipe, save the price of the cigars that you would have bought. If you smoked three five-cent cigars a day you would be saving fifteen cents. This sum, put into a savings bank regularly would amount to $668.18 in ten years. If you smoked three ten-cent cigars, and thus saved thirty cents a day you would have $1,336.59 to your credit at the end of ten years. This is enough to buy a small cottage.

The results of systematic saving are many and far-reaching. The ambitious boy may secure an education in this way. Suppose that the boy starts to work when he is ten years old, and that he can put away forty dollars the first summer, working up to October first, when he should put the money into a savings bank. Each succeeding year on October first he should put away fifty dollars. If he started this account on October first of any given year, his savings, at four per cent., compound interest, would represent the sum of $511.53 on October first, eight years later, the principal being $440 and the interest $71.53. This is enough to pay for the first year in one of the average colleges. With scholarships and work during vacations, he can easily make his way the remaining three years.

Thrifty parents may, by saving, not only provide an education for their children, but start their sons

in business or equip their daughters when they marry. Assuming that they are able to buy a thousand-dollar bond when the first child is born, the interest on this bond, put regularly into a savings bank, will provide a neat sum when the child becomes of age.

Take a thousand-dollar bond paying five per cent. The interest each year would be fifty dollars. Granting that the interest is payable January and July, there could be deposited the sum of twenty-five dollars every six months. At four per cent. this interest alone would amount to $1,299.47 by the time the child, for whom the bond is bought, is eighteen years old. In other words, there would have been deposited $900 in interest, and the interest on these various deposits would be $399.47. This would more than pay for half of the college education, and the principal of the bond (for the bond could easily be sold) would pay for the rest.

If, on the other hand, the parent desires that the boy should go into business when he leaves the high school, the bond can be sold, and, with the interest that has piled up in a savings bank, give the young man a start in some commercial enterprise.

A merchant in a large Southern city hit upon a good plan to provide a fund for his children when they should reach the age of twenty-one years. When each child was born he deposited a dollar in

the savings bank in its name. The next year he deposited two dollars. He kept this up each year for each child, depositing the number of dollars that the birthday represented in years. When each child became of age there was $306.16 to its credit in the savings bank. The putting aside of this money was scarcely felt by the parent. It came in small amounts and at intervals. It had a good effect on the children, especially on the boys, who realized that they had a bank account, and it made them see the value and importance of saving money.

Thus, the importance of saving, as the first start on the road to fortune, is obvious. It is not what you earn, but what you save, that makes you rich. If there are no savings banks in the town or community in which you live, you can easily arrange to do your banking by mail. In New York City, for example, the big savings banks receive deposits from all over the United States. One of them, the Bowery Savings Bank, the largest, has depositors all over the world, including many men in the United States army and navy. Banking by mail has become a fixed part of modern business.

CHAPTER II

THE A. B. C. OF INVESTMENT

THE first problem of the average investor is to know when to withdraw his money from the savings bank and invest it where it will yield a larger, and at the same time a safe, return. You can begin with $100, but it is best to wait until you have $500. Then you can look over the investment field for a choice of opportunities.

In the main there are four kinds of conservative investments:

Bonds.

Certain Stocks.

Real Estate.

Real Estate Mortgages.

Bonds are the corner stone of conservative investment. A bond is a receipt for money borrowed by a government, state, city or corporation. This receipt, which is in the form of a promise to pay, is engraved from a steel plate on heavy paper. The government, state, city or corporation issuing it pays interest on it until it falls due. Then it pays the principal or issues a new bond to take the place of the old one which has expired.

There are many kinds of bonds. The principal ones which interest the average investor are these:

Government bonds, which are issued by national governments.

Municipal bonds, which are issued by states, cities, villages, counties and school districts.

Railroad bonds, which are issued by railroads.

Public service corporation bonds, which are issued by corporations that serve cities: as, for example, gas or electric light companies or street railways.

Industrial bonds, which are issued by companies engaged in any kind of business.

These bonds are always issued for a specific purpose and to do a certain work. In the case of a government it may be to build ships or dig a canal; in the case of a state, the funds may be wanted for good roads or a new university building; a city or village may issue bonds for paving streets or other improvements; a county may desire to build roads or erect a new jail or courthouse; railroads are continually needing money to improve their roadbeds, build bridges or extend their systems, and industrial companies may want to build new powerhouses or factories. It will be seen that the bonds are issued with the intention of doing something with the proceeds thus obtained.

There is usually but one kind of government and state bond, and the security is the good name of the government or state issuing it. No one will

question Uncle Sam, for example, or doubt the integrity of the State of Massachusetts. These bonds are merely promises to pay. The remaining three kinds—railroad, public service corporation and industrial bonds—are usually mortgages on something, and comprise the different classes which are usually so confusing to people who have had nothing to do with them. They are as follows:

Since the bond is a mortgage on property, the highest class bond (and consequently the most valuable), is a first mortgage bond. It is just what the name says, and is a first claim on the property, whether it be a railroad, gas plant, street-car line or factory. If you own one of these bonds and the corporation issuing it fails to pay the interest after a given period, usually six months, you have the right, with the other owners of the same kind of bond in this corporation, to take steps looking to the protection of your interests. This may result in the property being sold at auction and your taking your share out of the proceeds. The security depends on whether the property is bonded for more than it is worth.

A second mortgage bond gives the owner second claim on the property. This kind of bond is, of course, not so valuable as a first mortgage.

A general mortgage bond is a mortgage on all the property of the corporation issuing the bond. In the case of a street railway company it would

cover the cars, tracks, buildings and plant generally. With a steam railroad it would be on tracks, roundhouses, office buildings and real estate. The value of this bond depends on how many first and second mortgages were already on the property, because these mortgages would have a prior claim over the owners of general mortgage bonds. A general mortgage bond, however, may also be a first mortgage on the property.

A consolidated mortgage bond is a mortgage on a group of properties, as, for example, when the gas and electric lighting companies in a city are consolidated into one company, or two small railroads combine and form one system. The consolidated mortgage, therefore, is an obligation of the company thus formed. The first mortgage bonds of any of these single companies, issued before they were consolidated, have prior claim over the consolidated mortgage.

A collateral trust bond is secured by the deposit, with some trustee, of stocks and bonds owned by the corporation issuing the trust bonds. If it came to a point where the collateral trust bondholders wanted to get their money back, in the event of the corporation's failure to pay interest, they might foreclose and sell the stocks and bonds offered as security.

Refunding bonds are issued to take up bonds that have run out. It frequently happens that when

bonds mature the railroad or corporation that issued them faces the problem of reborrowing the money, unless, as in some cases, the railroad or corporation has been setting aside a fund, which is called a sinking fund, to pay off the bonds. Many bonds have a clause, called a "sinking fund" clause, which compels the corporation to do this. What is generally done, however, when bonds come due is to issue a refunding bond, which is sold and the proceeds used to pay off the old debt, or these new bonds are exchanged for the old ones.

A debenture bond is simply a promise to pay the holder a certain sum of money, and, like a government bond, has as security only the good name, or, in the case of a corporation, the record and earning power, of the borrower. This is not so desirable as a bond with more concrete security.

The average bond is for one thousand dollars. Some are for five hundred dollars and a few for one hundred dollars. Bonds run generally from ten to one hundred years. Some are for longer periods. The longer a bond runs the more desirable it usually is for the investor who is able and willing to keep his money so invested, because it keeps on paying interest regularly and the owner does not have to bother about a new investment.

Bonds pay interest ranging from two per cent. (the rate now on government bonds) to seven per cent. The average now is from four to five per

cent. This means that a five per cent. one-thousand-dollar bond pays the owner fifty dollars every year, and a six per cent. one-thousand-dollar bond pays sixty dollars a year. Interest is usually paid twice a year. The amount of interest due at a given period is represented by coupons that are attached to the bond. If the bond runs for fifty years there are one hundred coupons. You have only to cut these off one by one as they come due semi-annually, send or take them to the office of the company or its bankers and receive the interest in cash. You can even deposit most coupons in your own bank as cash; for the bank, in turn, will collect the money. If the bond be registered, no coupons are attached, but the corporation which issues it mails checks to all of the bondholders, whose names it has on its books. Many bonds are "gold" bonds, which means that the principal and interest are paid in gold.

The value of a bond depends on four things: what security is offered, the rate of interest it bears, the length of time it runs, and how easily it may be sold if the owner wants to sell on short notice. The price is quoted in per cent. of its face value (the amount of the bond). If a thousand-dollar bond is quoted at ninety-two, it costs nine hundred and twenty dollars. This is under par. If, on the other hand, it is quoted at one hundred and ten, it is above par, "at a premium," as the term goes,

and costs you eleven hundred dollars. These quotations are fixed by the general value of the bonds and the demand for them. The greater the demand, the better the price. Many very safe investment bonds never appear in newspaper reports of Stock Exchange transactions, for the reason that few municipal bonds, for example, are listed on the exchanges.

Why pay eleven hundred dollars for a thousand-dollar bond? Here is the explanation. If a railroad company issued some bonds twenty years ago when its credit was not of the best, it naturally had to pay a high interest, say seven per cent., for the money it borrowed. If these bonds remained outstanding, provided they had not been refunded at a lower rate, they would still pay seven per cent. This bond, therefore, would be worth more than one that paid five per cent. Hence the premium. But if this same company had prospered it could borrow new money now at a lower rate of interest and issue bonds, say, at five per cent., which probably would not bring so large a premium, if any. For the conservative investor these new bonds at five per cent., but running a longer time, would be the better investment. Why? Because when you pay a high premium on a bond, this high buying price reduces the actual return of interest and thereby cuts down the actual return, in the end, on the investment.

It used to be the fashion to buy government bonds because the country was less prosperous and investment opportunities were not so many as now. Of course, few bonds are so secure, but they pay only two per cent., and no investor would think of buying them when many other safe investments are to be had that yield more. Government bonds are bought by national banks mainly, which are required by law to own them in order to put out currency (bills).

In buying bonds it is necessary for the buyer to know, in the case of a street railway company, how long it has been doing business, the character and record of its officers, what its earnings have been both in prosperous years and in lean, what its franchises are, what the chances for municipal ownership are, the competition it has, its indebtedness—in essence, all the facts about its condition. Particularly, he should see to it that the maturity of the bond does not extend beyond the life of the franchises. So with all others.

Practically all bonds contain part or all of the phraseology of the following, which is a First Mortgage Twenty Year Five Per Cent. Gold Bond:

For value received, the Blank Consolidated Street Railroad Company, a corporation organized and existing under the laws of the State of Ohio, and operating street railroads in the City of Columbus, promises to pay to the Central Trust Company of New York, Trustee, or to the bearer or registered owner One Thousand dollars in gold

coin of the United States of America, of the present standard, on the first day of July, 1909, and to pay interest thereon at the rate of five per cent. per annum from the first day of July, 1889, on the first days of January and July in each year, on the presentation and surrender of the coupon hereto annexed as they severally become due until said principal sum shall be paid, both principal and interest of this bond being payable at the agency of said railroad company in the City of New York. This bond is subject to redemption on or after July 1, 1894, at 110 per cent. of the par value thereof, with accrued interest out of a sinking fund of $22,500 a year beginning with that date as provided in the mortgage herein described. This bond is one of a series of eight hundred bonds of like tenor, date, and amount, numbered consecutively from one to eight hundred, both inclusive, and amounting, in the aggregate, to Eight Hundred Thousand Dollars, which are all equally secured by a mortgage of said railroad company in the nature of a conveyance in trust, dated July 1, 1889, and duly recorded, conveying all the property and franchises of said railroad company to said trust company in trust, for the benefit of the holders of said bonds, to all the provisions of which mortgage this bond is subject. In case of default for six months, after due demand, in payment of any interest on any of said bonds, the principal of all thereof may be declared due as provided in said mortgage. The principal of this bond may be registered on the books of the said company at its said agency, and registration thereof noted hereon, after which no transfer thereof shall be valid except on said books until after registered transfer to bearer, when the principal of the bond will again become transferable by delivery. The coupons annexed to this bond will always be transferable by delivery. This bond shall not be valid unless authenticated by the certificate of the trustee of said mortgage.

CHAPTER III

HOW TO INVEST YOUR MONEY

FORMERLY the investor sought the investment; now the investment seeks the man. To this extent has modern investment been organized. It has become a science, like farming.

No matter if you live in a small town in Kansas, or in a clearing in Oregon, or on a plantation down South, you are able to-day to share in the opportunity for safe and well organized investment. Just as the rural free delivery has brought the daily newspaper, with the fresh news of the world and its markets, to the very door of the farmer, so has the organization of modern investment brought its advantages to the homes of the people.

Since New York is the financial heart of the country it is natural that this work should have begun and been developed there. You will find "bond and investment" houses, often with branches in many of the other large cities, that make a business of seeking, developing and selling safe investments to people who have small or large

amounts of money to invest. They are like department stores. Instead of carrying household goods or clothing, they carry bonds and other securities. The method by which these bonds are secured and sold forms a large part of the machinery of investment organization.

If any kind of firm wants to do business, it must first have something to sell. Therefore, if the investment houses sell bonds, the first question is, how do they get them? Let us take a typical case that will illustrate the general method.

Suppose a street railway company in a large Western city wants to borrow five hundred thousand dollars to improve its system. Under ordinary circumstances an individual who wants to borrow would give a mortgage on something. Therefore, the street railway company does the same thing. It issues bonds, which are simply small mortgages. But the company does not undertake to sell the bonds. It gets in touch with one of the large bond and investment houses in the East. A street railway company is a public service corporation, and if it traverses a populous and prosperous community, its bonds are usually very desirable securities. Hence the bond house is interested.

Now, the bond house with which this street-car company gets in touch does what any other careful, conservative business concern would do. In

this particular case it would send engineers to test the physical condition of the road—that is, find out in what shape the tracks, cars, power-houses were. But this would be just the beginning. The bond house would have its own lawyers investigate the titles to the land owned by the company, the right-of-way and the franchises, for all of these enter largely into the prosperity of the property. Franchises especially require to be carefully looked after, for it is important they should extend beyond the life of the bond. In short, every bit of security that the company or property has is tested.

The same line of careful inquiry would be observed in any other kind of property. If it happened to be a coal mine, the bond house would send geologists to make investigation and analyses; if it were an industrial corporation there would be a test of the plant and its earning and producing capacity; if it were a railroad, experts would be sent up and down the line. So, for every exigency the investment house would first make careful, exhaustive investigation.

When it is assured, after its investigation, that the property is good and the security ample, the house will underwrite, as the term goes, the bond issue. This means that it will buy the bonds and then undertake to sell them, in turn, to investors and other buyers. Sometimes one house "underwrites" a whole bond issue; sometimes several bond

houses form a buying syndicate in which each is a participating member.

Every large investment house has its own method of selling, but all have the same object—to reach the buyer. In this respect the comparison with the ordinary commercial house continues, for nearly all the bond houses have salesmen who literally go out on the road. They sell wholesale and retail, but they deal, to use a commercial phrase, "direct with the consumer." They may sell twenty bonds or one bond to a customer. They go to banks and they go to homes. Thus they bring investment to the doors of the people.

It is very easy to get in touch with the big investment houses. Most of them advertise. A single inquiry, sent on a postal card, will cause them to be interested in your investment.

No investment is too small to be beneath the notice of these houses. A butcher up New York State with five hundred dollars to invest gets the same service as a city bank president with one hundred thousand dollars. If a sick man in Philadelphia with a thousand dollars writes to one of these houses that he is seeking investment, a salesman will be sent to see him. Advice is always obtainable. Much investment is now done by mail.

The organization of investment has not only served to put facilities for investment within easy reach of the people, but it is giving them an intel-

ligent idea of what they are buying and what their income will be. You don't go at it blindly. Some of the bond houses are banks as well, where the small investor can deposit his money until he has enough for an investment.

The investor must have confidence in the integrity of the house with which he does business, for this integrity, after all, is the best guarantee of the investment. An example of how worthy of this trust some of the great houses are was shown not long ago in New York.

A house brought out an issue of street railway bonds. On account of a strike and temporary financial difficulties, the railway company defaulted interest—that is, failed to pay interest when it came due. The bond house which sold the bonds immediately notified every buyer of them that it would buy the bonds back at the price paid, or exchange them for other bonds.

Every big investment house issues comprehensive booklets and other kinds of literature describing the bonds it sells and also explaining the security behind them. You can have your name placed on their list of people to receive such announcements regularly. In this way you can keep in touch with the market.

It is best for the average investor with savings to make his first investment in a bond. Many of the railroads and corporations issue $500 bonds,

which will pay from four to five per cent. interest. The city of New York has ten-dollar bonds, the most recent issue paying interest at four and one half per cent.

If you live in a small town and buy a bond or some stock from a house located elsewhere it is a good plan to have the security sent to the local banker. Then he can tell you if it is the bond or stock you ordered.

Many people with savings have an idea that they must wait until they get $500 before they can buy a bond. They are mistaken. Along with the organization of the modern business of investment there has come a plan of selling bonds on what might be called the instalment plan. It is just like going down to a department store in your town and buying a suite of furniture "on time." You pay a certain amount down and the rest in instalments. Meanwhile, you own the furniture. So with bonds, but with this exception—the banker or investment dealer lends you the money to buy the bond—that is, lends you the difference between the amount you pay down and the total cost. For this money that he lends he charges the current rate of interest. All the while, you own the bond or bonds and you are entitled to the interest that comes due on the security. In most cases this interest is ample to pay the interest on the money you borrow from the investment house.

The usual method is for the investor to pay down from ten to twenty per cent. of the amount of the investment, and the rest in monthly, quarterly or semi-annual instalments. If, at any time, the investor, by the sudden or unexpected acquirement of money, desires to pay the entire cost of the securities, he can do so. On the other hand, if, for some reason, he wants to give up the investment and close the account, the bond or security can be sold at the best market price, and thus the investor is fairly sure not to lose by the transaction.

CHAPTER IV

DIFFERENT CLASSES OF BONDS

THERE are many different classes of bonds, most of them belonging to the various types already described. For example, a railroad bond may be a convertible or an equipment bond. Many of these bonds have distinct features that commend them to the average investor seeking stability of investment.

Among the best of these bonds is the equipment bond, which is known by a number of names, such as "car trust certificates" and "equipment notes." It is issued by a railroad or corporation needing equipment.

This equipment is rolling stock—locomotives and freight, coal and passenger cars. The reason why this kind of security is called a car trust certificate is because the great part of railroad equipment consists of cars. The bond is usually secured by a mortgage on the equipment. Since equipment is absolutely necessary to the operation of a railroad, the bond takes on a peculiar and distinct value. Indeed, the equipment bond has very frequently

proved to be a security superior to the general first mortgage bond, which, by common consent, has been ranked among the highest type of railroad securities. The equipment bond yields more than the first mortgage bond, and, under ordinary market conditions, can be bought on a basis to yield five per cent.

There are safeguards about the issuance of equipment bonds which give them a unique value. The usual way of bringing them out is this:

Let us suppose that a railroad company traversing a rich coal region wants to build a thousand coal cars which would cost $1,078.20 apiece, or a total of $1,078,200. Now the railroad, like most other corporations, does not have this amount of available money on hand. It must therefore borrow the money, and the best and easiest way to do this is to issue bonds. Bonds for the full amount cannot be issued, because the wear and tear on the security offered (the equipment) would reduce their value during the life of the bonds. So the company does what is usually done under such circumstances. It pays in cash fifteen per cent. of the cost of the cars and lets the bonds raise the money for the remainder of the sum required.

Right here comes the safeguard which distinguishes the equipment bond. A trustee, invariably a reliable trust company, is named which takes in

hand the issuing of the bonds. The equipment is built and is used by the railroad company. But the company executes a deed of trust for it, conveying the equipment in trust to the trustee who holds it for the benefit of all concerned—the bondholders. This is why the security is called a car trust certificate. The bonds, which bear the name of the company, are a mortgage on the equipment. The railroad company pays the trustee (for the bondholder) the interest and principal of the bonds as they become due. It is not until the last bond is paid off that the trustee transfers the equipment to the company for final ownership. Thus, through the entire period of the bonds, the trustee stands as guardian of the bondholders' interests, with a direct claim on the equipment.

There are many features to commend equipment bonds. In the first place, all the equipment remains pledged as security until the last bond is paid off. The advantage of this is obvious. Since the number of outstanding bonds becomes smaller each year, the security for the constantly dwindling remainder becomes enhanced. The depreciation, or wear and tear, of the equipment must be considered too, but this has little or no effect on the bond.

In the second place, the equipment which secures these bonds is absolutely necessary to the railroad for the conduct of its business. No matter what

evil times may fall on the corporation, or whether it goes into bankruptcy or receivership, the equipment bonds usually retain their value, and their obligations are met. In fact, the equipment of a railroad bears the same relation to the road that the tools of a mechanic bear to the workman. If the mechanic is bankrupt the court exempts the tools from seizure because they are the means with which he must earn his livelihood. So with a railroad. Both Federal and State courts have held that when railroads go into bankruptcy the equipment, provided the mortgage has been properly executed and recorded, must be left free to be operated by the assignee or receiver for the benefit of the creditors. Hence the bonds securing the equipment remain good.

During the time that the bonds are outstanding the railroad company is required to keep the equipment in good condition, have it insured, pay taxes and other charges on it, and replace any of it that may be destroyed or worn out in the service.

A convertible bond has a feature that no other kind of bond has, and it is this: It can be converted into the stock of the company issuing it on a basis fixed in the bond. This is why it is called a convertible bond.

This feature gives the bond a certain speculative quality, because the value of stock is subject to quick changes and depends upon the prosperity of

the railroad or corporation issuing it. Stock is merely an interest in the business or corporation, while a first mortgage bond is a claim on it. Therefore, the convertible feature in the bond will make it appeal to business men who are willing to take a chance when they convert the security into stock. But this fact must also be kept in mind: You are not compelled to convert the bond. Thus, no matter how much the stock of the corporation or business should depreciate, the bond remains a bond with a fixed rate of interest, and as such is a good investment as long as the property remains intact.

There are many things to be considered in buying a convertible bond. In the first place, the conditions governing its purchase must be those governing any other kind of good bond. There must be no question of the stability of the corporation or railroad issuing it. In meeting this and the other requirements of a stable bond the investor gets the full advantage of a regular bond investment.

In some instances the holders of convertible bonds never exercise their right of conversion into stock, because they find it more profitable and safer to keep it as a bond. The moment you take stock for your convertible bond, it ceases to be a bond.

When you buy a bond for its convertible feature, you should buy one that has the most attractive

convertible basis—that is, the bond that gives you the opportunity to secure the stock of the company on the best possible terms, and with a chance to sell the stock at a profit if you so desire.

There is always a provision in a convertible bond stating the terms (or basis, as it is technically known) on which the stock may be converted. There are usually two methods:

(1) A conversion on the basis of a fixed value of the stock. Usually in a high-class bond of a standard railroad or corporation the stock is held at a premium. This means that you would have to pay, for example, one hundred and fifty dollars' worth of bond for one hundred dollars' worth of stock.

(2) A conversion that is an exchange of a certain number of shares of stock for each bond. The higher the type of corporation, the fewer the number of shares of stock you get for your bond.

A municipal bond is a very desirable investment for a cautious investor. It has behind it the good name and promise of the city, town or community that issues it, and when that city, town or community has a high reputation and a good credit, the bond takes on the same qualities. In addition, many legal and constitutional safeguards are thrown about municipal bonds. The very fact that many of them are legal investments for savings banks in New York and Massachusetts, where the savings

banks laws are the most stringent, is one good reason why they should recommend themselves to the average investor who wants conservative investment.

Being of the very highest class of bonds, and consequently really gilt edge, municipal bonds usually sell at a higher premium than do bonds of railroads and corporations. In buying them the investor sacrifices income to stability.

While industrial bonds are not so widely held as railroad bonds, for the reason that much private capital has been used in the upbuilding and exploiting of industry, the fact remains that they have come to be regarded as a standard investment security when certain conditions are fulfilled by their purchase.

An industrial bond is issued to secure money for the development or purchase of some kind of industry. It may be a steel foundry, an ice plant or a cotton mill. The method of bringing out such a bond does not differ from that employed to bring out a railroad bond or a municipal bond. What, first of all, distinguishes the industrial bond from other kinds of bonds is the security offered. In the case of the railroad bond the security might be the equipment; with a municipal bond it would be the taxes. The security of an industrial bond usually is the plant, the business done and its earning capacity. As with all types of bonds, the more

sound and more stable the security the more valuable the bond. It may be laid down as a general principle that an industrial bond should be represented at least by working capital, that is, the net current assets of the company should be sufficient to pay off the bond.

Summed up, the industrial bond with the best appeal for the average investor with savings is one issued by a reliable company with a steady business and a product in constant demand, regular earnings, and unquestioned organization, which has no political entanglements, and which is conducted by experienced, conservative and honest men.

Closely allied with bonds are short-term notes, which sometimes afford an excellent opportunity for the investor. The short-term note is a substitute for a bond for this reason: at any ordinary time, when a railroad or industrial corporation needs money for improvements it issues bonds, to run from twenty to fifty years, and paying from three and a half to five per cent. The proceeds are used for the desired work. During 1907 the corporations faced the same need of money, but the problem of raising it was harder because of the high money market. To follow the long-established plan of issuing bonds was out of the question, because the price of bonds was so low that they could only be brought out at a loss. As an

emergency measure they issued short-term notes, which pay a high rate of interest (the average is from five and a half to six and a half per cent.), which has caused them to be in demand by reason of their high yield. These short-term notes, as their name implies, are for much shorter periods than bonds. The average note is for three years and is the most desirable. Some are for one year and others run for five years. They are issued for short periods, because the railroads or corporations issuing them do not want to pay a high rate of interest for the money they borrow any longer than necessary, and because these corporations believe that by the time the notes mature the bond market will be in better condition.

The short-term note is like a bond in that it is a promise on the part of the railroad or corporation to pay money (one thousand dollars or five thousand dollars, as the denomination may be) which has been borrowed for a specific purpose. It is different from many bonds in that it is usually not a mortgage or a claim on anything, and in most cases depends for its value and security on the good name and earning power of the railroad or corporation issuing it. Sometimes, however, these notes are collateral notes, and, like collateral trust bonds, are secured by deposits of stocks or bonds. They have coupons attached or may be registered, like bonds. They are brought

out just like bonds, too, each issue being taken or underwritten by some great New York or Boston banking house, and this house is usually the best guarantee of the integrity of the investment.

CHAPTER V

STOCKS AS INVESTMENTS

THE subject of stocks is one which the average investor should approach with great caution for the reason that ill-advised dabbling in stocks often leads to reckless speculation.

A share of stock is an interest in a business depending for its value on the prosperity of that business. It is unlike a bond, for it is not a mortgage on anything. If the business which it represents is good, it usually pays a dividend. If the business is bad it often happens that no dividend is paid. In this respect stock again differs from a bond, which under all ordinary circumstances pays a certain rate of interest regularly.

Fundamentally, there are but two kinds of stock: common and preferred. Common stock may or may not have a fixed rate of interest. If earnings warrant it, a dividend is paid. But no dividend is paid on it until the fixed charges (the interest on the bonds) and the dividend on the preferred stock, are paid. It sometimes happens, however, that

common stock is very valuable, in fact more valuable than any other kind. Standard Oil stock is an example of this. The price on it is so high, however, as to take it outside the range of the average investor, and it pays less than seven per cent. at usual market prices. Common stock is the stock in which there is the most speculation, for it has large possibilities in the matter of price and earning power.

Preferred stock has a fixed rate of interest. It may be four, five or six per cent. As between common and preferred stock, the latter is the kind most available for the average investor.

Sometimes the preferred stock is "cumulative," which means that if the dividend is not paid one year, it accumulates and becomes an additional charge, which must be paid out of future earnings before anything can be paid on the common stock. The preferred stockholder has been called "a preferred partner in the business."

The usual phraseology of a certificate of common stock is this:

This certifies that.........................is entitled to ...... shares of One Hundred Dollars each of the Common Capital Stock of the Blank Company, transferable only on the books of the company in person or by attorney on the surrender of this Certificate. This stock is subject to an issue of six per cent. non-cumulative Preferred Stock of said company. All dividends paid by said company in any year, except said six per cent. upon the Preferred Stock,

shall be paid on this stock. This certificate is not valid unless countersigned and registered by the Registrar of Transfers of the Company.

A certificate of preferred stock usually reads as follows:

This certifies that.........................is entitled to ...... shares of One Hundred Dollars each of the Preferred Stock of the Blank Company, transferable on the books of the company in person or by attorney only on the surrender of this certificate for cancellation. The holders of the Preferred stock are entitled to dividends thereon to the extent of five per centum in each year, upon the par of such stock, out of the net income of the Company for that year remaining after payment of its operating expenses and fixed charges, including as well taxes, renewals, insurance, and repairs. If five per centum is not earned in any year, then there shall be divided among the holders of the Preferred stock whatever net sum, estimated as before, is earned that year. After the Common Stock shall have received five per centum upon its par in dividends in any year, the Preferred Stock shall be entitled to a further preference of two per centum for that year out of the net earnings estimated as aforesaid. After both classes shall have received seven per centum dividends in any year, the holders of both classes of said stock shall share ratably in any further net earnings applicable to any payment of dividends for that year. No mortgage, except a mortgage securing $5,000,000 at par of Five Per Cent. Bonds, shall ever be placed upon the existing railways of the Company unless a majority in interest of the stockholders of the Preferred Stock shall first have given their written consent thereto.

On the back of all kinds of certificates of stock is a blank to be filled out in transferring it from one owner to another.

There is still another type of stock called guaranteed stock. It may be either common or preferred. A guaranteed stock is simply a stock whose dividend is guaranteed. This means that the owner of the stock is practically certain to get the dividends on it. It is often the stock of a smaller railroad that is owned, controlled or operated by a larger railroad. The larger road guarantees the dividend on the stock. If the smaller company, for example, does not earn the established dividend on its stock, the company that guarantees it pays it.

Its value depends largely upon the company which guarantees the dividend. Guaranteed stock is much sought by very conservative investors. On account of its stability, the yield is lower than ordinary common or preferred stock.

There are two ways to buy stock: for investment or for speculation. The way to buy for investment is to buy it outright. This means that you buy the stock just as if it were a suit of clothes, a stove or a table. You pay the full market price and you actually own it. Then you can put it away and the dividends which it pays will provide an income for you.

Buying stock for speculation is to buy with the idea that it will increase in value and you can then sell it at a profit. Much speculating in stocks is "on margin." Buying stock on margin, is what

causes the loss, the disgrace and the ruin, for this is gambling. In buying on margin you are really borrowing the price of the stock from your broker, and you merely put up sufficient money, which constitutes the actual margin, to protect him in case the stock goes down.

When the stock, in such a case, has gone down so far that all your margin is used up, the broker calls for more. If you do not produce it he sells your stock, and then you lose all you put up. In the bucket shops, which provide facilities for stock gambling, the actual securities are seldom if ever bought or sold outright. The bucket shop merely bets against the customer.

Here is a concrete case: If you bought a share of New York Central and put up ten dollars you would nominally own that stock. If it went down the broker would want more money. If you put up this money you would be "protected" until there was a further change in the market. If the stock declined again you would be called on for still more margin. If you did not furnish this your account would be closed and you would be out every dollar that you had put up.

The stocks of banks and trust companies form a most desirable investment, but on account of the high premium the yield is seldom over four per cent. The best way for the average investor to benefit by this extremely attractive investment is

to be able to subscribe for the stock of a bank when it is being organized. Then he can get it at par. Perhaps it will not pay dividends for several years, but all the while it is becoming a more valuable property, and it is usually merely a question of time when it will not only pay dividends but command a premium.

Not all stock buying is speculation. There are many high class stocks, particularly those of the great and prosperous railway systems which, if bought outright, provide a standard investment. A good thing to remember in buying stocks for investment is this: put them away in a safe place and then forget that you own them. One reason why so many people lose money on good income-producing stocks is that they read the newspapers and become alarmed as soon as their stocks go down a few points. If you own stocks, you must be prepared to see them go up and down, because stocks are subject sometimes to violent fluctations in price. If it is the right kind of stock you are assured of an income from it no matter what happens in the market.

It is simple and easy to buy stocks. Any one of the big investment houses in New York will make the purchase. Some of them are members of the New York Stock Exchange. If you live in a city where there is a local stock exchange you can buy through one of its members. If you live

in a small town or an outlying community you can have certificates sent to your local banker who, being familiar with securities, can tell you if it is the stock you have bought.

The usual commission charged by a broker for purchasing stock is one eighth of one per cent. of the par value. This means that if you buy five shares of stock, par one hundred dollars, the commission is exactly sixty-two and a half cents.

CHAPTER VI

REAL ESTATE MORTGAGES AS AN INVESTMENT

When you look at the lists of investments made by savings banks in the states where proper legal safeguards are placed about the investments of such institutions, you will usually find that more than one half of the people's funds is invested in real estate mortgages. New York State alone permits the savings banks to invest sixty-five per cent. of their funds in real estate mortgages. If this is such an advantageous investment for a savings bank, there is no reason why the average investor should not share in its benefits.

Now what is a mortgage? A mortgage is a document that is a claim on land, or on land with something built on it, on which the owner has borrowed money. If the man who does the borrowing cannot pay the interest or the amount of the loan at the end of a certain time, and the mortgage cannot be renewed, the person or persons who loaned the money can foreclose and have the property sold so

that it will realize the amount that has been borrowed on it. Sometimes a series of bonds are issued and the real estate mortgage given to secure such bonds. In some states the mortgage is accompanied by a note, which is merely another form of the promise to pay.

When a man executes a simple mortgage, as the phrase goes, he pays interest on the money he borrows, usually at the rate of five per cent. per annum. It is just as if he were borrowing from a bank and paying interest.

The real estate mortgage has figured long and prominently in the drama of the people. In books and plays, and frequently in real life, it figured as the last desperate resort of the land owner who needed money. Often the mortgage was executed by a hard hearted money lender, who charged usurious rates and who delighted in foreclosing on the property. But, as with bonds, the real estate mortgage as an investment has been definitely organized, is on a high and reputable basis and affords an excellent opportunity for the employment of savings.

In every city to-day you will find a title company. This kind of company succeeded, in a measure, the individual lawyer who looked up the title of property. The title is the real legal claim or deed. If the title is good you have a clear ownership of the property. When a company employed

a whole staff of lawyers who did nothing else but look up titles and who kept careful records of all real estate transactions, it made the matter of looking up a title cheaper.

The next step was to take up the mortgage business. In the old way the man who wanted to execute a mortgage needed two people: the lawyer and the lender. The title company combined these two steps and loaned money on property.

Having gone into what might be called the mortgage business, the company had to make its mortgages earn some money. So a market for mortgages was created by making them a part of the investment opportunity.

The process is simple. The company takes a batch of mortgages and pools them. Let us say there were five mortgages of twenty thousand dollars each, making one hundred thousand dollars to be divided up for the investors and representing five pieces of property on which money was borrowed. The company issues two hundred certificates, each one of five hundred dollars face value; registers them like bonds and sells them like bonds, paying four and a half per cent. a year. Interest is paid every six months. These certificates usually mature in ten years, although they can be redeemed—paid up—in five. Like bonds they may be obtained in various denominations from five

hundred dollars up. Like a first mortgage bond each certificate is a part first claim on property whose title is guaranteed. These companies guarantee the principal and interest of the certificate, too.

Like municipal bonds of small localities and like the simple real estate mortgage, the real estate mortgage bond has a narrow market; that is, when it comes to selling it, one oftentimes has difficulty in finding a ready purchaser. For stability in all respects, however, a properly issued bond of this class is a superior security.

The matter of buying a real estate mortgage for investment depends often on the part of the country where you live. If you reside in a small place it is, perhaps, wise to buy a mortgage on property that you can see, or where you happen to know the people involved. In this way you can get an interest of five per cent. direct, and you do not need the big companies.

A real estate mortgage anywhere should never be for more than two thirds the value of the property. If the property, for example, is worth six hundred dollars, the mortgage should not be for more than four hundred dollars.

The big title and mortgage companies never lend more than sixty per cent. of the value of the property. The law for savings bank investments in New York specifies that they cannot lend more

than sixty per cent. of the value of improved property—that is, property with something built on it; and not more than forty per cent. on unimproved property—that is, just land.

CHAPTER VII

REAL ESTATE AS AN INVESTMENT

SINCE the earliest time land has been a measure of wealth. It has been the ransom of kings, the dower of brides, the object of mighty conquest. "To own property," as the phrase has long gone, has been an almost universal ambition. Yet there are few fields in which more money has been lost through injudicious placing.

One reason why real estate has entered so largely into the drama of the people is that it has so often meant a home that you could call your own. But how to choose wisely and buy properly is the problem.

There are two ways of buying real estate, just as there are two ways of buying stocks and other securities. One way is to buy for investment. The other way is to buy for speculation. Most indiscriminate buying of real estate is speculation pure and simple, because then you buy with the express hope of having the property increase in value. This is the same purpose that causes men to gamble in stocks.

In the first place, real estate is one of the most stable of things. It cannot go into bankruptcy; it cannot move away (earthquakes are very infrequent in the United States), and it suffers comparatively little from mismanagement or the crookedness of bad officials. Of course, it is seriously affected by the condition of business, and when there is a widespread business depression, there is a decline in the value of real estate generally.

If real estate is such a stable thing, why should it not be a good thing for the average investor with savings? It *is* a safe investment, but more precautions are necessary in buying it than in almost any other kind of investment. No matter in what part of the United States you live, or what your occupation is, it is safe to say that you have been tempted at some time to buy real estate. The opportunity in many cases has been hard to resist, too.

Perhaps in your home town there has been what is called a "boom," when real estate values suddenly go up and everybody goes real estate mad and expects to get rich over night. The town, no matter what or where it is, is at once destined to be "the queen city," and all roads will lead to it. But often the boom flattens out and the only crop that the land yields is a harvest of taxes and troubles. Therefore it is a good thing for the average investor to keep away from "booms" and "boom towns." The history of many Western states is the story of

the spectacular rise, decline and fall of such towns. The only people who profited by them were the promoters who sold land early in the boom.

During the past three years, keeping pace with the general prosperity, there has been a legitimate activity in real estate, and much of it has been bought for investment, but more for speculation. It has come to be a favorite medium for the so-called "big operators" who deal in millions.

Take the case of a man or woman with savings who wants to buy real estate as an investment, with the primary object of using it as a site for a home.

The immediate problem is to get it in that location where it has the best chance of increasing in value, for, no matter if you have no idea of selling it again, there is a satisfaction in having it become more valuable the longer you own it. You never know when an emergency may call upon you to sell it. This matter of appreciation in value should be the underlying one in all real estate buying.

If you are living in a small town or a city, it is best to buy in what may be called the path of progress. Let the property be near the line toward which business is moving, for the encroachment of some kinds of business increases values, though, also, some kinds of business depreciate values. If a brewery or a stable should be built on a residence square, the value of property there would go down.

Again, a fever epidemic would do much toward sending down values.

Another thing to be considered in buying real estate is the matter of the town's or city's prosperity. It is best to buy in a city that is growing in population and business. Every thousand people added puts dollars to the value of your holdings. It is like buying the bonds of a company with a steady earning record. Real estate in cities of waning population and that suffer from competition with neighboring cities declines steadily.

Buying real estate bargains is often a matter of opportunity. Sometimes a chance offers because of the fact that the owner is forced to sell property unexpectedly, and so the price is lower than it otherwise would be.

There are two kinds of property, improved and unimproved.

Improved property is property on which something is built. It may be a dwelling, a factory or a theatre. Unimproved property, on the other hand, is land without anything built on it.

Many great fortunes have been started by the lucky purchase of improved property. Men and women have bought old buildings, made them into tenements and got good rents from them. When improved property can be bought cheaply the rents afford a good income and yield a satisfactory return on the money invested. But often it is a risky busi-

ness that causes you much solicitude. Your house is liable to remain empty or the tenant may leave without paying the rent.

How to find the cheap improved property is the problem. The real estate agent seldom can tell you. If he knows he will probably buy it for himself. You must look for yourself. Carpenters, plumbers, and contractors who repair houses often encounter bargains of this kind.

Here is a concrete example of what may be accomplished with a cheap piece of improved property. A man in Philadelphia bought a house and lot for $3,000, paying $1,000 in cash and giving a mortgage on the property for $2,000. His expenses for the year were: taxes, $37.50; water rent, $12.50; repairs, $36; expense of collecting rent, $18; interest on mortgage, $100; or a total of $204. He received $30 a month rent or $360 a year. Deducting the expenses, the net return to him was $156, or a yield of fifteen and six tenths per cent. on the money invested. The income, if put into a savings bank, would pay off the mortgage in less than thirteen years. This is the German plan of acquiring real estate which consists simply of never spending the income derived from rents.

A good rule to follow in buying improved property as an investment is this: the property should yield one dollar a month rent for every hundred

dollars invested. This means that if you buy a $3,000 house it ought to bring $30 a month rent.

In real estate, as in all other kinds of investments, there are pit-falls. The chief of these is the "subdivision" lure, which consists of selling "choice" lots on the instalment plan. You are asked to pay $10 down and $10 a month. It sometimes takes five or six years to pay for a lot. Meanwhile it is not earning a cent for you, because, in the great majority of cases the land is not improving in value. These subdivisions are advertised in spectacular fashion with pictures of shaded, well-kept streets, and rows of cozy homes. In realty these streets exist only in the imaginations of the promoters. Unless you want to build a home, the subdivision lot is a good thing to avoid as an investment.

CHAPTER VIII

INVESTMENTS FOR WOMEN

In making investments most women are wisely unwilling to take the same chances that a man is apt to take. Therefore the first quality that an investment for a woman should have is absolute stability. Her money should be so placed that it is not easily affected by market conditions, by crop changes, by the dishonesty of individuals, or by shifts of political power. Yet it is interesting to add in this connection that the men in the investment business will almost unanimously tell you that one of the first things which a woman asks, in discussing an investment, is: "Will it go up?" meaning, of course, that she expects it at once to increase in value.

But the first step is to save. No matter if you are clerk, stenographer, secretary, factory girl, or other worker with your hands or brain, it is easy to save a little sum of money every week. The extents to which the most insignificant sums grow are sometimes amazing.

The real beginning, therefore, of any woman's investment is in the savings banks. When, however, she has, say, $500, it is time for her to look around for an investment that is just as safe and that will yield her a larger return. She should be willing to make a little sacrifice of income to secure an investment that is secure. It will save her a lot of worry. The investment for a woman should be a long time one—that is, an investment that does not mature soon, because in that event she will have to go over the whole investment performance again. In view of these important considerations, it is highly advisable for the woman with savings to buy, under ordinary circumstances, a bond, which invariably represents the most conservative investment, and usually runs a long time.

In buying bonds the average woman who has no banker with whom to consult should follow those investments which are legal for savings banks in New York and Massachusetts, the two states that throw the strongest safeguards about the people's savings. These include real estate mortgages, first mortgage bonds of railroads, and state and municipal bonds. The yield from these very high class bonds is smaller than the yield from some other investments, but that is because they are so safe. There is no more desirable bond, for example, for a woman than a city of New York four per cent.

bond, which may often be bought for par, perhaps a little less. The first mortgage bonds of a half dozen great railroads which come inside the savings banks' range afford excellent investment for women. The list might include bonds of the following: Chicago, Burlington and Quincy Railroad; Illinois Central; Chicago, Milwaukee and St. Paul; Chicago and Northwestern; Lake Shore and Michigan Southern; Pennsylvania, and New York Central and Hudson River. These bonds are what are called "gilt edge" securities.

A woman, however, is taking but little more risk and is getting a larger income when she invests in a high class industrial bond. These come outside the savings bank class, and should only be bought when the woman has the advantage of the advice and judgment of a banker or dealer in investment securities in whom she has absolute confidence and the reputation of whose house is of the very highest.

The desire to own a piece of property or a small cottage makes a strong appeal to women who work, especially in the cities where there are many subdivisions of land; but this is speculative unless you want it for a home. If you buy a little cottage, for example, you must pay taxes, you must keep it in repair, and you run the risk of not having a tenant for it. Real estate mortgages, on the other hand, have no such risk. But it is well to have

the mortgage on property where you can see it, and it is wise to insist on its not being mortgaged for more than two thirds of its value.

In this kind of investment, as in any other kind, it is advisable for the woman to seek the best advice, for a failure to do this has robbed many of hard earned savings. With the present organization of investment facilities it is possible to get in touch with the most reliable houses, no matter where you live, for investments may be made by mail, and their stability depends on the integrity of the house with which you do business.

Women are often the easy dupes of "get-rich-quick" schemes. A Boston widow who was left to support a half dozen children started a lunch stand. By frugality she saved $1,000 in five years. She wanted to invest it. She had seen lurid advertisements of copper stocks that were selling for ten dollars a share and that promised to be worth $100 a share in a year. Without asking advice she bought these shares. They are not worth ten cents now, and her savings are wiped out.

A widow in Pittsburg, on the advice of one of her late husband's business friends who was in the coal business, made $10,000 by an investment in some Pittsburg coal securities. She was able to do this because her friend knew all the details of the business. Just about this time Amalgamated Copper stock was going up. She read about it in the

newspapers. Without asking advice she invested $8,000 of her money in copper. Then she settled down to watch the newspapers. One day she saw that this stock was rapidly going down, as frequently happens even with good stocks. Each day she saw that it went down more. She became frantic, and, fearing that all of her investment might be lost, she hurriedly gave orders to sell all her copper stock to realize the best possible amount of money under the circumstances. What was the result? She lost more than half of her money, and the next day the stock began to go up strong. She simply had plunged into this whole business without seeking advice.

More women have lost their savings through getting excited over newspaper reports and by hearsay than in almost any other way.

A woman not long ago went to the office of a New York investment broker and said she had $8,600 to invest. She said that she had heard a lot about Japanese bonds and would like to invest in them if the broker thought they were good. He said they were an excellent investment, yielding almost six per cent. So she invested the $8,600. The investment proved highly satisfactory. She came in six months later with $5,000, and her broker invested this for her in high class municipal bonds, that were legal savings bank investment. But these bonds are not listed in the list of bonds

quoted on the stock exchange. One day not long after this woman came rushing into the broker's office, exclaiming:

"I am ruined!"

On being asked the reason she said:

"I have been watching the papers every day for prices on those last bonds and I can't find any. A friend of mine told me that if bonds were not mentioned in the newspapers they were no good."

The broker, whose house was of the highest class, promptly assured the lady that he would buy the bonds back at the price she paid for them if she was not satisfied. But his explanation about the listing reassured her.

Yet it is a woman, Mrs. Hetty Green, who is regarded as one of the shrewdest and most successful investors in the United States. She has an office with the Chemical National Bank in New York. When the salesmen for bond houses come to sell her bonds, she can sometimes tell more about the investment than they themselves can. If it is a railroad bond she knows all about the capitalization; the bonded debt; its reorganization; in fact, its whole financial history. For years she has made a careful study of the bond business.

If you should ask Mrs. Green the ideal and safest investment for women she would very probably say:

"Put your money in the first mortgage bonds of first-class railroads and in real estate mortgages."

Her own strong boxes are filled with this kind of securities.

CHAPTER IX

HOW SAVINGS BANKS INVEST THEIR FUNDS

SINCE the savings banks of most states are regulated by law in the safe investment of their deposits, it is interesting and helpful to see just what kind of investments these banks make. The nearer the investor gets to the average savings bank standard the greater will be the safety of his money.

There are two kinds of savings banks: mutual and stock savings banks. A mutual savings bank is one that is conducted solely for the benefit of the depositors. There is no capital stock to be bought and sold or to increase or decrease in value. It is really a sort of philanthropic trust for the thrifty poor. Most of the mutual banks are in New England and the Eastern States and comprise the most conservative institutions. Hence they are the safest.

A stock savings bank, on the other hand, is like any other commercial bank, in that it is conducted primarily to make money for the stockholders as well as for the depositors. Many of these banks do a

general banking business and thus take risks. They are to be found in the Western and Southern States.

Savings bank laws are not the same for all states. Some states have stricter laws than others; some have no savings bank laws at all. The states that have savings bank laws are: Connecticut, Indiana, Iowa, Maine, Massachusetts, Michigan, Minnesota, Kentucky, Missouri, Nebraska, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont and Wisconsin. In the other states there are either no restrictions upon the deposits of savings banks or such slight limitations as to give the depositor practically no protection.

The most rigid of all state savings bank laws are in New York. Their investments afford a safe guide for the average investor who wants absolutely the highest class of security. Being of such high quality they do not yield so much income as some other less restricted investments, and for this reason the New York banks do not pay so large an interest as the banks of other states which have a larger field for investment.

New York savings banks are permitted to invest in only three kinds of securities: Government bonds, which include the bonds of the United States and the bonds of states, cities, towns, villages and school districts; real estate mortgages, and railroad bonds of the highest class.

Having defined these three classes, the law puts

further safeguards about them. No municipal bonds (of cities outside New York State) can be purchased, for example, except those issued by a city having a population of at least forty-five thousand people, which has been incorporated at least twenty-five years, and which is located in a state admitted to the Union before 1896. In addition, the total bonded debt of these muncipalities must not be more than seven per cent. of the entire value of the taxable property in the community. The cities, too, must be in states that have faithfully paid the principal and interest of their bonds since 1861.

The law on real estate mortgages is equally strict and may be safely followed by the investor anywhere. It provides that the investment must be in mortgage on property located in New York State and, what is more important, on property which has been appraised, or examined as to its true value, by a direct representative of the bank. The bank cannot lend more than sixty per cent. of the value of the property if it is improved—that is, if it has a house or something built on it; and not more than forty per cent. of the value if it is unimproved—that is, if it is just a piece of ground.

No less safe are the regulations concerning investments in railroad bonds. All these bonds must be mortgage bonds, which are the highest type because they are a direct claim upon the rail-

road property. They must be in railroads that have regularly paid for five years at least four per cent. dividend on the capital stock; and whose capital stock is at least one third the amount of the entire bonded debt of the road. When a railroad meets these requirements it means that a certain amount of stock has been sold and the proceeds (the money derived) expended on the property, thus giving some security for the bonds.

New York savings banks are forbidden to invest more than twenty-five per cent. of their assets (the deposits) in railroad bonds, and not more than ten per cent. of the assets in the bonds of any one company. No trustee of a savings bank can share in the profits of an investment made by the bank with which he is connected, nor is he allowed to borrow the bank's money for his personal or business use. Thus the evil which nearly wrecked the big life insurance companies in New York cannot be repeated in savings banks.

A still further safeguard refers to loans, a process by which many banks often lose money. The New York savings banks can only lend money on collateral (the security put up by the borrower), which the bank itself is authorized by the state laws to purchase. The borrower, too, must put up ten per cent. more than the market value of the collateral. If a man, for example, wants to borrow one hundred thousand dollars from a savings bank, he must

put up one hundred and ten thousand dollars' worth of bonds.

New York savings banks make a point of buying registered bonds. This makes them safe from loss by robbery, or dishonest employees. Less than a year ago the cashier of a savings bank at New Britain, Connecticut, got away with more than two hundred thousand dollars' worth of bonds. They were coupon bonds mainly, and he was able to sell them easily and without fear of detection. If they had been registered he could not have sold them. This cashier had free access to the bonds of the bank. In New York at least two representatives of the bank must be present when bonds are taken out of the vaults. Often there are two combinations to open the vaults and each one is known to a different person.

Practically one half of the funds of New York savings banks is invested in real estate mortgages. The remainder is in bonds of the United States, cities, towns, counties, villages and school districts of New York and of New York State; in the bonds of other states and their larger cities, and in railroad mortgage bonds.

Let us see what these specific bonds are, for they comprise about the safest New York investment the average investor can make. The bonds of the following New York cities appear most in the reports of savings bank securities: New York, Roch-

ester, Schenectady, Buffalo, Jamestown, Elmira, Syracuse, Yonkers, Binghamton, Troy, Albany. The New York county bonds most generally held are: New York, Albany, Kings, Queen, Ulster, Erie, Westchester, Richmond, Rensselaer, Dutchess and Oswego; while the New York villages represented are: Flushing, Saratoga, Fredonia, Nyack, White Plains and Plattsburg.

The state whose bonds are most represented among the savings bank securities is Massachusetts. Other states whose bonds may be found in the lists are: Texas, Rhode Island, Indiana, Maryland, Minnesota, South Carolina, North Carolina, Tennessee, New Hampshire, Maine, Ohio, North Dakota, Wyoming, Pennsylvania, Idaho, Utah, Delaware, and also the District of Columbia.

The list of cities, outside New York State, whose bonds are legal for New York savings bank investments is: Portland, Maine; Manchester, New Hampshire; Boston, Cambridge, Fall River, Holyoke, Lowell, Lynn, New Bedford, Somerville, Springfield, Worcester, Massachusetts; Providence, Rhode Island; Bridgeport, Hartford, New Haven, Waterbury, Connecticut; Camden, Hoboken, Newark, Trenton, New Jersey; Allegheny, Erie, Harrisburg, Philadelphia, Pittsburg, Reading, Scranton, Wilkesbarre, Pennsylvania; Wilmington, Delaware; Baltimore, Maryland; Cincinnati, Dayton, Columbus, Ohio; Indianapolis, Indiana; Detroit, Grand

Rapids, Michigan; Milwaukee, Wisconsin; Minneapolis, St. Paul, Minnesota; Des Moines, Iowa; Omaha, Nebraska; San Francisco, Los Angeles, Oakland, California; Louisville, Kentucky; and St. Louis and Kansas City, Missouri.

Some of the railroad bonds which come within the restrictions of the New York laws and which are to be found most in the savings bank securities are: Boston and Maine, first mortgage; Buffalo, Rochester and Pittsburg, first and consolidated mortgage; Central Railroad of New Jersey, general mortgage; Chicago and Alton, first mortgage and refunding mortgage; Chicago and Northwestern, consolidated and first mortgage on main and all branch lines; Chicago, Burlington and Quincy, consolidated and first mortgage on main and branch lines; Chicago, Milwaukee and St. Paul, first and consolidated mortgage on main and branch lines; Chicago, Rock Island and Pacific, "The Rock Island," first general and refunding mortgage on main line and branch line; Delaware and Hudson, first mortgage on main line and consolidated mortgage on branch line; Delaware, Lackawanna and Western, "The Lackawanna," consolidated and first mortgage on main and branch lines; Illinois Central, first mortgage on main and branch lines; Lake Shore and Michigan Southern, first mortgage; Michigan Central, first mortgage on main and Nashville, unified (or consolidated) mortgage on

main line, first and general mortgage on branch lines; Manhattan Railway Company, first mortgage; New York Central and Hudson River, first and consolidated mortgage on main line, and some of the branch roads; Pennsylvania, general and consolidated mortgage on main line, first and general mortgage on branch lines; St. Paul, Minnesota and Manitoba, consolidated and extension mortgage; Michigan Central, first mortgage on main and branch lines; Buffalo Creek, consolidated mortgage; Fonda, Johnstown and Gloversville, refunding mortgage; Genesee and Wyoming, first mortgage; Montgomery and Erie, first mortgage; Cairo Railroad, first mortgage; Missouri Pacific, first mortgage; New York, New Haven and Hartford, first and consolidated mortgage on main line and some branch lines.

The state law specifies that the savings banks may also invest in the mortgage bonds of the Maine Central, the Morris and Essex, and the United New Jersey Railway and Canal Company.

Massachusetts ranks second after New York in the security of its savings bank laws. The banks of that state are permitted to invest in United States Government and District of Columbia bonds; in the bonds of New England States, and also the bonds of the States of New York, Pennsylvania, Ohio, Michigan, Indiana, Illinois, Missouri, Minnesota, Wisconsin and Iowa; in the bonds and notes

of any county or town in Massachusetts or any other New England city or town; and in the mortgage bonds of a number of well-known railroads, including the following: Boston and Lowell, Maine Central, New York Central and Hudson River, New York, New Haven and Hartford, New York and New England, Boston and Maine, Old Colony, and practically all those legal in New York State. A few street railroad bonds are also legal for Massachusetts savings banks.

In Michigan the savings banks may invest in the first mortgage bonds of steamship lines operating on the Great Lakes. As a rule, the further west you go the more lax become the savings bank laws. Hence the investments of the banks of the eastern states, and particularly those of New York and New England, are those to be followed by the average investor.

CHAPTER X

FACTS EVERY INVESTOR OUGHT TO KNOW

The first question that the investor asks when he is about to make an investment is: "How much will the yield be?" Therefore it is highly important that he should know how to calculate the return on the investment himself. In this connection it is interesting to emphasize a fundamental fact that every investor ought to know and keep constantly in mind, and it is this: The yield on any investment, no matter what it is, is based on the amount of money you put into the enterprise, and not on the face value, as for example, the face value of a bond.

In calculating the yields of bonds a very common mistake is made in using the same process employed in obtaining the yield on stock. But there is a big difference between calculating the yield of a bond and that of a share of stock.

The ordinary method of ascertaining the yield of a share of stock is to divide the percentage of dividend that the stock has been paying by the

market price that you paid for it. For example, if the stock has been paying six per cent. and you paid 115 for it, the yield would be about 5.20 per cent.

When you come to figure out the yield of a bond, however, you must take a great many things into consideration that do not enter into the reckoning in the case of stock, and it is these things that cause complications when the layman does the calculating.

The two most important elements that enter into and affect the yield of a bond are:

(1) The fact that, no matter what you pay for the bond, you get the full amount of the principal when it matures. Also, if you bought the bond below par, it would make your yield greater than indicated by the face rate of interest.

(2) The fact that, in calculating bond yields, it is to be assumed that you will hold the bond until it matures.

Here is a concrete example: If you bought at 98 a five-per-cent. $1,000 bond, that had two years to run, the actual cost of the bond in money would be $980. If you tried to get the yield by the process of getting the yield of a share of stock you would find that it would be a little over five and one tenth per cent. But, when you consider that you paid $980 for the bond and get $1,000 for it at the end of two years, a cash profit of twenty dollars, it naturally follows that your yield will be

more than the little over five and one tenth per cent. As a matter of fact, it is really a little over six per cent. This yield is obtained from the table known as "Bond Values."

How then is this yield obtained? It is an intricate mathematical process, involving calculus. For the convenience of the investment business, and to save a great deal of time and trouble, official tables of "Bond Values" have been prepared. It is in the form of a handy little volume, the work of experts, and includes the yields of a great variety of investments. The book gives the yields from and including three to seven per cent. and ranging in time from one to one hundred years. These books are regarded as absolutely accurate, and on the accuracy of their figures depends the investment of millions of dollars every week. Any investor can use them because complete instructions are printed.

Bonds are quoted in two ways: "and interest" and "flat." An "and interest" price means that the buyer pays the seller the interest which has accumulated on the bond since the last interest was paid. For example, if a man buys a bond on the first of June and the last interest was paid on the first of April, there is due the seller of that bond the interest for two months. He is entitled to it because a bond pays interest all the time. But the buyer gets that interest back when the next coupon comes due, for the coupon represents the interest to be paid on the

bond for the entire period between interest payments.

A "flat" price, on the other hand, is the price quoted that includes the interest from the time of the last payment of interest to the time of selling. For example, if the "flat" price of a bond is $970, the "and interest" price might be $950, with twenty dollars accrued interest added.

Another technicality that the bond buyer should understand, because it will come up some time or other, is the difference between a "coupon" bond and a "registrable" bond. A "coupon" bond is one on which coupons are attached representing the interest, and the owner or agent of the owner can cut them off as they come due.

Bonds may be "registrable" in three ways: as to principal, as to interest, and as to both principal and interest. When a bond is "registrable" as to principal you have your ownership of it registered with the issuing company or the bank or trust company that acts as agent for the municipality or corporation that issues it. Then, no matter who gets hold of that bond, he can not secure the principal when it comes due, because it is in your name. This is an excellent precaution against theft. When a bond is "registrable" as to interest, you have your ownership registered and the issuing company sends you a check for the interest whenever it comes due. Thus, no one but yourself can collect interest.

When a bond is "registrable" as to both principal and interest it is simply a combination of the two methods just given.

A "coupon" bond is more quickly negotiable than a "registrable" bond, because in making a sale it is not necessary to change names on registry books.

It is a good precaution to write down in a secure place the number of your bond or share of stock. Then, in case it is stolen, you can have payment stopped. In the case of a bond where the coupons are negotiable for cash this is a very important matter. Of course, if the bond is registered this precaution is not so necessary.

If you live in a small town, or in the country, and have a bond with coupons, you can have these coupons cashed at your bank, for the reason that the coupon of any good bond is as good as cash. It saves you the trouble, too, of sending the coupon to the trustees.

If you are going to invest, for example, in a short-term note, or a bond, and have the money ready, do not delay; for delays, sometimes, are costly. It frequently happens that prices go up in the course of a few days. Once a very desirable short-term note was offered by a syndicate of New York bankers at 97. There was a big demand for it. By the time the people who had pondered over it for several weeks sent in their orders the price had gone up to 99.

Find out everything you possibly can about the company in whose securities you invest. Ascertain the earnings of the company for as long a period of years as you can conveniently trace them, learn all you can about the men who conduct the enterprise, and find out exactly what rate of interest or dividend has been paid on its stocks or bonds.

In making an investment never take anything for granted, and remember always that intelligent investigation is the first step in the safe placing of your money.

Since a very large part of conservative investment is in railroad securities, it is important that the average investor should know how to read a railroad report. To the layman, these reports as published are as so much Greek.

In the first place a railroad report should show concretely three things: the earning power of the road, its financial condition, and its physical condition.

The earnings are an important feature. Gross earnings are the return from passenger, freight, mail, express and other service. The operating expenses, strictly speaking, comprise the total cost of running the road. But many other items are often put under this head without specification. With an unscrupulous management "operating expenses" cover a multitude of corporate sins; there-

fore, it is important that they should be specified. The difference between the operating expenses and the gross earnings is called the net earnings. Often a road may be doing a tremendous volume of business, yet show very small net earnings. To the net earnings is added the interest that the road receives from any bonds it owns, for many railroads buy bonds for investment, just as do banks; also they may receive dividends and rents on property rented to other railroads.

This total gives what is called the net or total income.

From this must be taken the "fixed charges." This simply means the money not included in operating expenses, that the railroad or corporation is required to pay every year.

The interest on its bonded debt is the first fixed charge against the net earnings. Taxes, insurance, rents and interest on money borrowed by note constitute other fixed charges.

When the fixed charges are deducted from the net income they leave a balance out of which the dividends on the stock may be paid.

The final remainder is what is called the surplus. This surplus plays an important part in the railroad's financial story. Properly, it belongs to the stockholders, for the stockholders own the property. The bond holders are simply lenders and are secured by a mortgage on the property. Some-

times the surplus is put back into the road in improvements; sometimes it goes to the stockholders in increased dividends; sometimes it affords officials the opportunity to speculate or invest in the stocks of other roads.

When the surplus of a road shrinks, without any division having been made to the stockholders, you should see a corresponding increase in its assets, or else the investment is not of the best. The Pennsylvania long made it a rule that for every dollar paid out in dividends, one dollar should be invested in the property.

The financial statement, or balance sheet, should show specifically the assets and liabilities, the list of securities owned by the road, so that their market value may be seen, and the exact amount of working capital or available cash; while the physical enumeration should show the miles of trackage, the condition of roadbed, the amount and condition of rolling stock and equipment and the volume and character of and the returns from the business.

But the important thing for the investor to know is the relation that these figures bear to one another, for this gives the real condition of the road.

The following facts should be remembered: The operating expenses should scarcely ever be more than seventy-five per cent. of the gross earnings;

the net earnings should be twice as much as the fixed charges. It is well also to apply the test that the New York savings bank laws put, which is that the road shall have paid a dividend of at least four per cent. regularly for five years.

CHAPTER XI

PITFALLS FOR INVESTORS

The path of the investor is strewn with pitfalls. Most of them belong to one of the following classes:

1. The mining schemes which are often floated by unscrupulous promoters who offer shares of stock at prices ranging from two cents to ten dollars, with promises of twenty to thirty per cent. dividends.

2. The industrial companies that claim to have inventions or land grants which will revolutionize industry and make you rich.

3. Real estate enterprises which include boom towns and get-rich-quick subdivisions near cities.

4. Bucket shops which promote gambling in stocks, cotton and grain.

Intimately associated with all these schemes is the wily promoter whose principal purpose is to separate the investor from his savings and in the most plausible fashion. Here is an incident that shows one of the favorite methods of operation:

Not long ago an old man came to the editor of

a leading Wall Street paper and asked his advice. He said: "I have lost all my savings. I was advised to buy mining stocks at thirty-three and a third cents a share and was told that each share would be worth at least five dollars in a few years. I had three hundred dollars in a savings bank. I took it out and bought nine hundred shares. The company has gone out of business. Can anything be done?"

"Nothing," was the reply.

The editor asked the man who had advised him to buy the stock, and he said:

"My doctor."

Promoters frequently enlist the coöperation of prominent men in communities and through them palm worthless stock off on their friends. Ministers are frequently the unconscious aids of schemes of this kind.

During the early part of the year 1907 the United States suffered from a bad case of mining fever. It was started by the discovery of rich ore in Nevada. Some valuable mines were developed, but a thousand other mines were exploited merely on the strength of their being located near actual producing properties. Wherever one turned one could see alluring advertisements of this stock. Shares were offered from one cent up. Dazzling "market letters" were issued filled with golden promises. These are schemes that the average investor should carefully

avoid because there is absolutely no guarantee of return, and the way of most of the companies is toward receiverships and failure with seldom, if ever, any assets.

The best advice in regard to the buying of gold or copper mining stock such as is at times advertised in large quantities and at low prices is that once given by a hard-headed business man, who said to a prospective buyer:

"First investigate the company thoroughly; be sure that the people behind it are honest, and then—invest in something else."

The word "industrial" covers a multitude of speculative sins. It is used to good and profitable advantage by the promoter with people who have a prejudice against mining stock, but who do not stop to realize that the "industrial" swindle is sometimes worse than the mining fake.

In one way, "wild-cat" schemes grow out of the great prosperity of the people who have had a good deal of money to invest. These schemes include inventions of many kinds, electric railroads, musical instruments, time and labor saving devices, rubber plantations, and the usual and ever-present oil well. Most of them are labeled "safe investment," but the real truth of the matter is that they are, for the most part, speculations of the worst kind and the very propositions that the investor with savings should avoid. With these pitfalls, as with many others, the

way of the promoter is the same: he cloaks his scheme in the most glittering phrases, makes impossible promises of big and quick profits—and the investor does the rest.

But no kind of industrial pitfall has lured more investors than "the invention that will revolutionize industry." Every man who has ever invented anything believes, like Colonel Sellers, that there is "millions in it." This feeling is often contagious, and affords one reason why so many people are willing to put their money into that kind of speculative proposition.

Practially all promoters of inventions use the same method. It is this: Nearly every mechanical device, no matter what its use, is heralded as being "as good a proposition as was the Bell Telephone stock." There is big fascination in that statement, because it is pretty generally known that the people who were fortunate enough to buy Bell Telephone stock years ago made a great deal of money out of it, though they did not make half as much as the shrewd promoter of the present day would have you believe. So thousands of people are looking for just another good thing and the promoter encourages this hope to his own advantage.

But telephones and air brakes do not happen every day, and, if they did, the chances are that they would not fall into the hands of "get-rich-quick" promoters for exploitation.

Some people find it difficult to resist these allurements. In the case of hundreds of companies whose stock is being sold broadcast to innocent investors, the same situation is presented, and it is this situation that the investor should keep in mind. In the great majority of cases the invention has not had a commercial test, and is, therefore, still an uncertainty as a money maker. Therefore when you buy stock you take a very long chance.

The bucket shop is the race track of the speculative game, and the operator takes the place of the bookmaker. He bets against the people who intrust their money to him. In financial phraseology, "bucket shopping" means, not actually buying stock on order, but paying or receiving the difference in price after the customer has closed the account.

The bucket shop may operate in stocks, in grain or in cotton, or in any other speculative medium. All money looks alike to it just so it gets it; and it usually does get it.

This form of speculation, in a way, has grown out of the fact that locality has come to have a considerable part in the investment of the people. Southern people, for example, are more than likely to invest in cotton; Middle Western people are partial to wheat or pork; Westerners are willing to take a chance at mining stock; while Easterners

and New Englanders, following many traditions of trading, stick to stocks.

The shrewd promoter of speculative enterprises knows these traits of locality, as they might be called, and plays on them to the fullest extent. The South, for instance, is flooded with literature advertising all kinds of schemes to get rich in cotton at a small price.

Practically all stock and other operations in bucket shops are on margin, which has been described in the chapter on stocks. It is this kind of gambling that has wrought widespread ruin, sorrow, and disgrace. The court records everywhere are filled with the stories of men who started on their downward career by losing their savings, or other people's money in bucket shops.

Bucket shops sometimes flourish under the name of "Syndicates," "Exchanges," and "Stock and Commission Houses." But by any other name they would be the same nefarious institutions.

CHAPTER XII

WALL STREET—THE MONEY MARKET—THE BANK STATEMENT

Wall Street is the financial heart of the nation and consequently the very center of the investment business. Its work and meaning are of significance to every investor. No matter how trivial your savings or how small your investment you are bound up in some way to that great artery which is perhaps the best known and least understood street in America.

If you have an insurance policy, for example, the company that issues it has some of its funds invested in Wall Street; if you ride on a railroad, that road has, in all probability, been financed in Wall Street; if you are a farmer out West, the money with which you pay your harvest hands has come from Wall Street, and if you have some of your savings deposited in a bank you will find, in all likelihood, that some of its deposits have been sent to New York to be invested where they will receive the highest return. Thus, unknown to

yourself, you are connected with that vast and powerful machine that not only regulates the finances of the country, but fixes the prices of the securities in which you invest, and on which you may depend for your income.

Yet Wall Street is simply a great business institution. Its story is the history of the financial, industrial and agricultural development of the United States. Within its precincts the first Congress sat, and George Washington took the oath of office as President. There is reference to it in every issue of every newspaper published in this country.

Wall Street, to begin with, is the name of a street in New York, but in reality it means the whole financial district of that city, which includes a considerable area. Wall Street itself is a narrow, almost crooked, street that runs from Broadway, where old Trinity Church stands as a tall brown sentinel, east to the East River. On the intersecting and parallel streets are huge office buildings where the railroads and giant corporations have their main offices and whose securities form a large part of the medium for investment and speculation. These are the camps of the captains of industry. Yet a man can have an office in the Waldorf-Astoria, or almost anywhere else outside the district, and be "of" Wall Street.

Wall Street got its name from a wall or stock-

ade built in the thoroughfare to keep out Indians, in the old days when New York was a Dutch city. Late in the eighteenth century some merchants met under a buttonwood tree near where the subtreasury now stands, to trade and sell stocks. These men, who dealt in hundreds of dollars, were the forerunners of the brokers of to-day who deal in many millions. For Wall Street, stripped of glamor and technicalities, is a place to trade in and to make or lose money.

The hub of Wall street is the Stock Exchange. In nearly all the large cities there is a stock exchange, but these other exchanges deal mostly in local securities. The New York Stock Exchange is the great exchange of the country. There are eleven hundred members. Each one has a "seat," so-called because the original members years ago had stalls or seats. A seat has been known to sell for $93,000. They are only sold when a member dies or goes out of business. The members of the exchange are brokers whose business it is to buy and sell securities. They charge a commission for doing so. In other words, they perform the same service that a real estate agent does when he sells a house or lot for you.

The brokers meet in a great hall called "The Floor." If you stand in the visitors' gallery and see the "Floor" in action, you may think possibly that everybody down there has gone mad. All

seems to be confusion, men are rushing around and yelling while bits of white paper flutter in the air and litter the floor. Yet behind all this bedlam the wheels of a great machinery are whirring. Some brokers are buying; some are selling; profits are rising and losses are dwindling. Every broker carries a pad on which he makes a memorandum of sale. At the close of the business day, which is three o'clock, there is a comparison of sales. Sometimes a block of one hundred shares of stock has been sold six times at six different prices. Yet this block only changes hands once, for it goes to the last buyer. This is done through the stock exchange clearing house.

On the "Floor" you see the posts around which the brokers rally. These posts bear the names of stocks. If a broker wants to buy or sell Union Pacific or Amalgamated Copper he goes to the post that bears one of these names. Every sale is recorded, and it is this record, sent out on the tape of the ticker, that forms the basis of sales everywhere in the United States. Darting around among the brokers are the official reporters whose business it is to get the record of sales as soon as they are made. If a broker sells five hundred shares of Reading at 90, it would go out on the tape as follows: "RG 500 90." To save time and space the names of the securities are abbreviated. Reading, as already indicated, is RG; Missouri Pacific is

MP; Rock Island is RI; New York Central is CEN.

The transactions of the New York Stock Exchange are eagerly watched by the whole trading nation. The tape may spell fortune or ruin. If the New York market is depressed the feeling is contagious; if it is buoyant and active there is a good feeling everywhere.

Although the number of bonds sold on the New York Stock Exchange is only one fifth of the total amount disposed of, the prices made for this one fifth are the prevailing prices.

There are two great divisions in the stock market. One of them comprises the bulls, who buy stocks in the expectation that they can sell them at a higher price. Hence a bull market is a market of advancing prices. The other division includes the bears, who sell in the expectation that they can buy the stocks later at a lower price. Hence a bear market is one of declining prices. A bull who has bought is "long" of the market. A bear who has sold is "short" of the market. A "long" who sells at a higher price than he bought is said to have "realized his profit." If he sells at a loss he is said to have "liquidated." The word liquidation, so frequently used in Wall Street news, simply means selling at a loss. A "short" who has bought stocks is said to have "covered." This may mean either profit or loss. A "bear

raid" is when the bears combine and force down prices.

There are two other divisions: the public and the professionals. The public comprises the men who come into Wall Street occasionally to speculate; the professionals are those who make a business of speculating.

There are many securities not traded in on the big stock exchange. They are sold on the "Curb," which is on the street not far from the Exchange. The Standard Oil stock, for example, which is not "listed," is sold on the "Curb." There are other market places, including the Consolidated Exchange, which is a smaller stock exchange and sells in small lots, and the Coffee, Cotton and Produce Exchanges.

Money has a market like any commodity. Money is also the basis of credit. If you have no money you have no credit. Through credit the power of money is expanded for it enables one dollar to do the work of a number of dollars.

The money market is made possible by the fact that people and corporations are constantly needing money for their business and other people and banks are lending it to them. Since New York is the business center, and since the New York banks make one fifth of all the loans of the country, it is natural that that city should also be the financial heart of the nation. The money prices it makes

are the prices that rule everywhere within the range of its influence.

Briefly stated, the money market is the place in which the borrowing and lending of money are done. The people who borrow pay a certain price for the use of it. This price is called interest. Thus interest rates figure very prominently in the transactions of the money market. In the popular mind, high interest rates are synonymous with usury. But high interest is sometimes the legitimate development of the money market.

With money you can usually make more money. Because business men and corporations are constantly in need of money, a demand for it is created, and it is this demand that fixes the price that people have to pay for it.

There are two important divisions in the money market which relate to what are commonly known as call and time loans. You see references to these and the interest they bring, on the financial pages of the newspapers every day.

Call money is money that is borrowed subject to call, or demand. It may be for one day or for three days. The price of call money is usually a pretty fair index of general stock market conditions. When call money yields one, two or three per cent. interest, it is said to be "easy"; this means that it is plentiful. When it yields six, seven or eight per cent., it is said to be "firm." Then it is becoming less plentiful.

When the price goes beyond ten per cent., it is said to be "stringent." It is then very scarce.

In times of great financial stringency call money has risen to extremely high prices. In August, 1890, for example, it went to 186. This does not mean that the man who borrowed one hundred thousand dollars had to pay one hundred and eighty-six thousand dollars for it. But he had to pay for it at the rate of one hundred and eighty-six per cent. a year.

Call money rates are for the year. The usual rate for call money is from two to four per cent. Call money is used mostly by brokers or speculators who need a large sum of money for a short time. They need it badly, and they are willing to pay well for it.

Time loans, on the other hand, are just what the name indicates. In their case money is loaned for a certain time, usually thirty, sixty or ninety days. The interest rates on time money are usually higher than those on call money, for the reason that such loans keep the money out a considerable time and it is so prevented from being worked over again quickly. The interest on time money, under ordinary market conditions, ranges from five to six per cent.

In both call and time loans the borrower must deposit good collateral as security. This may be either stocks or bonds. For a loan of one hundred

thousand dollars one would ordinarily deposit securities whose market value was not less than one hundred and twenty-five thousand dollars. This is called "hypothecating" securities, and is a phrase that you often encounter in financial columns. It simply means offering stocks or bonds as security for money that is borrowed. In the event of the borrower not being able to pay the loan, the collateral is sold by the man or bank that loaned it. The banks that hold collateral keep a sharp watch on it. In case it is a time loan, there might be a "slump" or decline in the stock market, and then the securities offered as collateral would depreciate in value. The borrower who had deposited them would be called upon for more security to bring the total amount up to the original sum required.

No matter in what part of the United States you live, if you pick up a newspaper on Saturday afternoon or Sunday morning, and read the financial news from New York, you will see prominent reference to the weekly bank statement, stating the effect of its publication upon the stock market.

The weekly bank statement is sent out by the New York Clearing House. Every city of consequence has a clearing house, which is an institution supported by the banks, in which they settle their business with one another, instead of settling it individually. It saves much time, labor and expense. The New York Clearing House is the

largest and most important in the country, not only because New York is the financial center of the United States, but because the New York banks which comprise its membership, and the other New York banks, hold approximately one fifth of all the loans in the country.

The weekly bank statement that you see every Saturday is the statement of the banks that comprise the membership of the New York Clearing House, and it is upon their condition that part of the country's credit depends. These banks number fifty-four, of which thirty are national banks. Two of the latter, the National City Bank and the National Bank of Commerce, have a capital of twenty-five million dollars each.

The clearing house requires that each of these associated banks shall submit a statement of its average condition for the six business days preceding, at eleven o'clock Saturday morning. If it is a matter of loans, for example, the bank does not send the actual amount of loans outstanding, but the average for the week based on the average of each day. Thus the statement is not actual, but average. The specific items that the clearing house requires reports on are: capital, net profits, circulation, loans, specie, legal tender and deposits. Circulation means the amount of notes bearing the bank's name, and which are secured by deposits of Government bonds.

The banks send in this information on printed slips furnished by the association. As soon as all are in, the total is made up by expert accountants as speedily as possible. Elaborate precautions are taken to prevent the information from getting out ahead of time.

The most important item of all is the reserve. The National Banking Law requires all national banks to keep twenty-five per cent. of their deposits on hand in specie and legal tender. This is the legal reserve.

State banks—that is, banks other than national—are required to keep only fifteen per cent., but, by an unwritten law, they conform to the national requirement. When the cash holdings of a bank exceed the amount required by law, they are said to have a surplus; when the amount is below the legal limit, there is a deficit.

The reserve, or surplus reserve, as it is technically called, is the difference between the surplus required by law and the actual amount of cash on hand. Since a bank works with money, it is apparent that to know the amount of reserve is a very important thing. If banks, for example, use up a lot of their money, or lose it by withdrawals of all kinds, they will show a deficit.

In studying or analyzing the bank statement, four things must be considered: reserve, outstanding loans, deposits, and cash holdings.

The reserve has already been explained. The loan statement shows that the bank is either expanding or contracting. Contraction means the calling in of loans, and this often works a hardship on the borrower and is indicative of an advance in rates of interest. Then people find it harder to get money, and business may be materially affected.

A large deposit, however, does not always mean a large amount of money on hand. By the process of relending, the same deposit may be expanded to a larger sum, because the various people to whom the bank lends the money deposit it in the bank again.

A big decrease in cash holdings (specie and legal tender) may not be due to unnatural causes, and, therefore, need not cause any alarm. There are many legitimate ways to decrease these cash holdings, such as using large sums to move the crops.

CHAPTER XIII

GLOSSARY OF FINANCIAL WORDS AND TERMS

Above par.—Higher than the nominal or par value.

Assessment.—A call on stockholders for money to be used for a specified purpose.

Assessable stock.—Stock that can be assessed.

Bank clearings.—Amount of checks and drafts that go each day through the clearing house and representing the amount of business done.

Bear.—One who operates for declining prices.

Bear panic.—A market precipitated by bears anxious to buy.

Block.—A group of bonds or shares of stock all bought at the same time.

Board.—The blackboard on which the market quotations are written. Also designates the Stock Exchange.

Bond.—A receipt for money borrowed by a railroad or corporation, extending over a certain period and paying interest at specified intervals. It may

give the owner a mortgage on property or it may be personal.

Books close.—During a fixed period before the payment of a dividend on stock, in order that the corporation may have time to determine from its records who is entitled to receive said dividends, the books are "closed" and no transfers are recorded.

Break.—A sudden decline in the price of a stock.

Broker.—An agent for the buying or selling of securities who receives a commission for his work.

Bull.—An operator or individual who operates for advancing prices.

Bulling the market.—Putting up the prices.

Buying outright.—Paying full price and actually owning stocks.

Call loans.—Money loaned subject to the demand or call of the lender. The time is usually from one to three days.

Certified check.—A check which has been recognized by a competent officer of a bank as a valid appropriation of the amount of money specified therein to the payee and bearing the evidence of such recognition. Usually the cashier or teller writes or stamps on the check, over his signature, the words: "Certified by the —— Bank."

Coalers.—The term used to indicate the great railroads engaged in the coal trade or carrying

large quantities of coal. They include the Lackawanna, Baltimore and Ohio, Pennsylvania, Philadelphia and Reading, Chesapeake and Ohio, the Central of New Jersey, and others.

Commercial paper.—Notes that are negotiable drawn on account of merchandise of some kind.

Consol.—An abbreviation or contraction of the word consolidated. In England consols represent the consolidated debt of the nation.

Coppers.—Stocks in copper mines.

Corner.—Buying a large quantity of a certain stock and thereby controlling the price of it.

Coupon.—Slips attached to bonds which represent the amount of interest due at a specified time.

Coupon bonds.—Bonds with coupons attached.

Curb market.—The market located on Broad Street just south of the Stock Exchange in which many securities not listed on the big Exchange are traded in. It is held every business day rain or shine.

Curb broker.—A broker who operates on the curb.

Deal.—A transaction in securities entered into by a group of men.

Debenture.—A debt.

Debenture bonds. — Bonds that are simply promises to pay.

Default.—Failure to pay interest on bonds.

Delivery.—The successful transfer of a stock, implying that all requirements have been met.

Demurrage.—The charge when a railroad car or ship has remained over time for unloading.

Discretionary pool.—A pool formed to operate in a certain stock in which the majority of participants in it leave the operation to one or more members.

Dividend.—The sum divided as profits among the shareholders of a stock company.

Ex-dividend.—On the day when the stock transfer books of a corporation are closed, the stock that day sells ex or without dividend. It does not carry with it the dividend about to be paid.

Fiscal year.—The business or financial year, usually ending June 30th.

Flat.—Meaning the price including accrued interest. The prices of bonds listed on the New York Stock Exchange are flat prices.

Flurry.—A sudden decline in the stock market.

Flyer.—Buying stocks or grain with the expectation of a quick profit.

Funding.—Converting a current liability into a permanent debt.

Futures.—The right of the buyer to demand delivery or of the seller to deliver within a certain specified time.

Granger.—Term used to indicate the railroads

handling farm products for freight as, for example, the Burlington, Great Northern, Chicago, Milwaukee and St. Paul.

Hypothecating.—Pledging stock as collateral for loans.

Industrials.—Stocks of corporations engaged in some industry.

Lamb.—One who comes into Wall Street without experience, and who usually retires without money.

Lien.—A claim or mortgage on property. First lien is the same as a first mortgage.

Liquidation.—Selling securities at a loss to realize cash.

Listed.—Stocks and bonds that have met all Exchange requirements and are traded in on the New York Stock Exchange.

Long.—One who has bought stock with the expectation of an advance in prices is long of the market.

Margin.—The money deposited by a customer with a broker, usually ten per cent., to cover the purchase of stocks.

Merger.—The combine of corporations or railroads into one company.

Non-assessable stock.—Stock that cannot be assessed.

Pacifics.—The name used to designate the railroads with the word Pacific in their title; as, for

example, the Union Pacific, Northern Pacific, Southern Pacific.

Paper profits.—Profits that have not been converted into actual cash.

Par.—The face value, usually one hundred dollars in the case of stock.

Passing dividends.—Not declaring a dividend.

Point.—In stocks one point is one dollar a share. An advance of five points is an increase of five dollars in the price of the stock.

Professional.—One who makes a business of speculation.

Pool.—Grouping of large quantities of a certain stock to put through a deal of some kind.

Public.—The outsiders who trade in Wall Street.

Rentes.—The government bonds of France widely held by the great mass of French investors.

Room trader.—A stock exchange member who operates for himself.

Scrip.—A certificate issued by a railroad or corporation showing that the holder is entitled to money. It is usually issued as a substitute for dividends.

Share.—A certificate representing a part of capital stock.

Short selling.—Selling at a certain price with the expectation of buying the stock at a lower price, and making delivery.

Sinking fund.—A sum of money set aside for a

specific purpose as, for example, the redemption of an issue of bonds.

Slump.—A break or decline in the market.

Specialists.—Brokers who deal in a certain kind of stock only.

Syndicate.—A combination of business men, bankers or investment houses for the purpose of putting through a deal.

Ticker.—The instrument, operated by electricity, which records the stock market transactions on the tape.

Tip.—A pointer on a stock or market condition.

Tipster.—One who makes a business of selling tips.

Trunk lines.—Through railroad lines.

Underwriting.—The taking over of an entire bond issue at a certain price by a banker or a group of bankers. The underwriters then retail the bonds at a higher price.

Unloading.—Selling out a stock.

Upset price.—The lowest price at which a railroad or a commodity may be sold at auction.

Watered stock.—Stock which represents neither tangible assets or earning power.

Wiped out.—To lose all the margin that you have deposited with a broker.

CHAPTER XIV

FINANCIAL BOOKS OF REFERENCE

In case the investor desires to go more into detail in the matter of finance or investment, the following books may be profitably used as works of reference:

"Moody's Manual of Railroad and Corporation Securities."—This book has the complete record of the steam railroads and franchise and industrial corporations of the United States, and is the standard of its kind.

"Poor's Manual of Railroads."—This contains a statistical record of steam railroads in the United States.

"The Work of Wall Street," by Sereno S. Pratt, editor of the Wall Street Journal.—A comprehensive account of every branch of activity of the Street.

"Corporation Finance," by Thomas L. Greene.—A study of the finances of corporations in the United States, with special reference to the value of their securities.

"Trust Finance," by Edward S. Meade.—An illuminating discussion of a timely subject.

"The Anatomy of a Railroad Report," by Thomas F. Woodlock.—The most compact explanation of a difficult technical subject yet made.

"Bond Values," by Montgomery Rollins.—The standard compilation of yields on bonds adapted for every price, and extending from one to one hundred years.

"Funds and Their Uses," by Dr. F. A. Cleveland.—A very valuable and instructive work with much practical information.

"American Railway Transportation," by Emory E. Johnson.—A lucid explanation of all features of railroad organization.

"Fifty Years in Wall Street," by Henry Clews.—An intimate account by a veteran of some of the most dramatic events in our financial history.

"The Modern Bank," by Amos K. Fiske.—A description of the functions and methods of the present system of banking.

"The Bond Buyer's Dictionary," by S. A. Nelson.—A book of much valuable information for the layman.

THE END

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